Rapid #: -23232664

CROSS REF ID:	**OCLC#227397342**
LENDER:	**FYK (Pasco-Hernando State College) :: Main Library**
BORROWER:	**HC7 (Southern New Hampshire University) :: Shapiro Library**
TYPE:	Book Chapter
BOOK TITLE:	Home buying 101 : from mortgages and the MLS to making the offer and moving in, your essential guide to buying your first home
USER BOOK TITLE:	Home buying 101 : from mortgages and the MLS to making the offer and moving in, your essential guide to buying your first home
CHAPTER TITLE:	Figuring out the down payment
BOOK AUTHOR:	Jon Gorey
EDITION:	
VOLUME:	
PUBLISHER:	
YEAR:	2022
PAGES:	25-42
ISBN:	9781507217405
LCCN:	HD259 .G67 2022
OCLC #:	1259046346

Processed by RapidX: 10/2/2024 8:15:55 AM

HOME BUYING 101

FROM **MORTGAGES** AND **THE MLS** TO **MAKING THE OFFER** AND **MOVING IN**, YOUR ESSENTIAL GUIDE TO **BUYING YOUR FIRST HOME**

JON GOREY

ADAMS MEDIA

NEW YORK LONDON TORONTO SYDNEY NEW DELHI

Adams media
Adams Media
An Imprint of Simon & Schuster, Inc.
100 Technology Center Drive
Stoughton, Massachusetts 02072

First Adams Media hardcover edition February 2022

ADAMS MEDIA and colophon are trademarks of Simon & Schuster.

For information about special discounts for bulk purchases, please contact Simon & Schuster Special Sales at 1-866-506-1949 or business@simonandschuster.com.

The Simon & Schuster Speakers Bureau can bring authors to your live event. For more information or to book an event contact the Simon & Schuster Speakers Bureau at 1-866-248-3049 or visit our website at www.simonspeakers.com.

Manufactured in the United States of America

2 2022

Library of Congress Cataloging-in-Publication Data has been applied for.

ISBN 978-1-5072-1740-5
ISBN 978-1-5072-1741-2 (ebook)

CONTENTS

INTRODUCTION 8

CHAPTER 1: ARE YOU READY TO BUY A HOME? 10

WHY BUY A HOME? 11

WHAT IT MEANS (AND COSTS) TO BE A HOMEOWNER . . 15

HOME BUYING READINESS CHECKLIST 19

IT'S OKAY TO KEEP RENTING 22

CHAPTER 2: FIGURING OUT THE DOWN PAYMENT . . 25

WHAT'S A DOWN PAYMENT, AND HOW MUCH DO YOU NEED TO SAVE UP? 26

SAVING FOR A DOWN PAYMENT 29

OTHER DOWN PAYMENT SOURCES 35

LOW- OR NO-DOWN-PAYMENT MORTGAGES AND DOWN PAYMENT ASSISTANCE 39

CHAPTER 3: READYING YOUR FINANCES 43

HOW MUCH HOME CAN YOU AFFORD? 44

EVALUATING YOUR FINANCIAL SITUATION 47

WHY YOUR CREDIT SCORE MATTERS, AND HOW TO FIND YOURS 50

HOW TO IMPROVE YOUR CREDIT SCORE 53

WHAT IS YOUR DEBT-TO-INCOME RATIO? 58

HOW TO TACKLE YOUR DEBT 61

CHAPTER 4: UNDERSTANDING MORTGAGES 65

HOW DO MORTGAGES WORK? 66

PREAPPROVAL VERSUS PREQUALIFICATION 70

WHAT YOU'LL NEED TO APPLY FOR A MORTGAGE . . . 74

HOW RATES IMPACT YOUR PURCHASING POWER . . . 78

New laws require lenders to be far more cautious, fair, and straightforward when writing mortgages today. They must prove a borrower meets "ability to pay" requirements, and shady subprime loan practices such as balloon-payment loans are a thing of the past. But it's still possible for well-qualified borrowers to get overstretched—especially if life throws you a curveball like a job loss, divorce, or health crisis.

Even as home values surged in 2020, more than three million Americans were severely underwater on their mortgage in the fourth quarter, according to ATTOM Data Solutions—meaning they owed a lot more on their mortgages than what their homes were actually worth. In a situation like that, there's rarely a good way out. Best-case scenario: You keep paying your mortgage, more or less stuck with that home until its value goes up or you've paid the balance down. If you can't keep up with your mortgage payments, and you can't sell your home for at least as much as you owe on it, you'll be left paying some of the difference when you sell—money you probably don't have—or enduring the foreclosure process.

Let's be clear: That's not how the vast majority of homeownership experiences go. But it is a possibility, and not one you want to invite on yourself if you can avoid it. You're looking to buy a home, not an albatross around your neck. So it's worth waiting until you feel ready.

"Waiting" to buy doesn't have to mean spinning your wheels in a holding pattern, however. Whether you need a few more months or a few more years to prepare, if you know you'd like to buy a home one day, now is the time to start saving, to start learning, and to start researching the home buying process, so that when you are fully prepared, you can pounce.

Chapter 2

Figuring Out the Down Payment

You've probably seen commercials where auto dealerships offer to sell you a new car or truck with "No money down!" Unfortunately, buying a home almost always requires a down payment, and coming up with that chunk of cash is typically the biggest hurdle for first-time home buyers.

In this chapter, we'll look at how much you may need to scrape together for a down payment, and some savings strategies to help you reach that target. But we'll also explore some of the first-time home buyer loans and assistance programs that can make it possible to buy a home with a smaller down payment—or even none at all.

WHAT'S A DOWN PAYMENT, AND HOW MUCH DO YOU NEED TO SAVE UP?

A 20 Percent Deposit Is Ideal but by No Means Necessary

The biggest hurdle most first-time home buyers face is coming up with a down payment. This is a cash deposit on the house that essentially protects the lender should you default on the loan.

The down payment reduces a lender's risk in two ways. Most obviously, it builds in a bit of financial cushion in the event that the home's value decreases. But it also ensures that you as the home buyer are more deeply invested in the home—that you and the lender share a common interest and stake in its condition, and you're thus more likely to take good care of it.

The standard, traditional down payment is 20 percent of the purchase price. On a $350,000 home, that's an astounding $70,000 in cash. You probably don't have that kind of money lying around, *and that's okay.* One reason many buyers do is because they're selling their existing home for more than they paid for it—they're able to use the home equity they've built up as a down payment on their next house.

What if you don't already own a house to sell? A number of first-time home buyer programs require no more than a 5 percent or even 3 percent down payment. As well, active-duty service members, military veterans, and rural home buyers can sometimes access $0 down payment loans through the US Department of Veterans Affairs or the US Department of Agriculture. We'll cover some of those federal loan options later in this chapter.

What's more, as with so much else in life, the "ideal scenario" doesn't exactly square with reality. The median down payment in 2019 was 12 percent, according to an exhaustive survey of recent home buyers conducted by the National Association of Realtors—nowhere near a full 20 percent. Among first-time buyers, the median down payment was even lower, at just 6 percent. You absolutely don't need a full 20 percent down payment to purchase a home.

That said, you should still aim to put down as big a down payment as possible. It doesn't have to be a fifth of the purchase price, but strive for 10 percent, or even 5 percent. On that same $350,000 house, that puts your target at about $17,500 to $35,000. At a bare minimum, you'll probably need to save up $10,500, or 3 percent of the purchase price.

The larger your down payment, the sooner you'll build up real equity in your home, and the more manageable your monthly mortgage will be. With a $10,500 down payment, for example, the mortgage payment on that $350,000 home would be $1,621 a month, assuming a 4 percent interest rate on a thirty-year, fixed-rate mortgage. By comparison, putting down $35,000 would yield a monthly payment of $1,504, saving you more than $110 a month for the next thirty years. A larger down payment will generally help you qualify for lower interest rates and better loan terms as well.

The more you can save up as a down payment, the more options you'll give yourself. Extra cash can extend your price range without impacting your monthly budget. It can make your offer more attractive to sellers or help you overcome any last-minute hiccups with the home sale. And let's be honest: It never hurts to have more money on hand, so it's not as if the savings will go to waste if you don't need to put the entire amount toward a home. Whatever's left over could help pay for a kitchen or bathroom remodel or cover the cost of a new roof or furnace.

Because lenders view a low-down-payment mortgage as a riskier proposition, they generally require borrowers to pay private mortgage insurance, or PMI, if they put less than 20 percent down. PMI is something of a mixed bag. Without it, millions of buyers would be unable to purchase a home. And yet, it feels like a lousy deal. It's insurance that you have to pay for, but it doesn't protect you—it protects the bank.

How Much Does PMI Add to Your Mortgage Payment?

The cost of private mortgage insurance (PMI) will vary, but you can expect to pay $30 to $70 a month per $100,000 borrowed, according to mortgage giant Freddie Mac.

Paying PMI is practically a matter of course for many first-time home buyers, but it's still an added cost in the early years of your mortgage, and the closer you can get to a full 20 percent down payment, the less you'll ultimately pay in PMI. (We'll cover PMI in greater detail in Chapter 4.)

Coming up with a down payment isn't easy—but it's not impossible, either, especially if you give yourself plenty of time. In the next section, we'll look at some potential strategies for amassing a home deposit, from extreme budgeting to local grants and interest-free loans for first-time home buyers.

SAVING FOR A DOWN PAYMENT

Cut Expenses and Stash Your Cash

So how the heck do you come up with $10,500 to $35,000 or more in savings? Time is perhaps your best ally in this goal, so start saving early. Here we'll look at a range of techniques to help you sock away enough cash for a down payment, from aggressive budgeting to part-time side hustles.

AUTOMATE YOUR SAVINGS

First things first: Set up a high-interest savings account, or a folder within your current bank account, specifically designated for your down payment. (Some banks will even award you with a cash sign-up bonus if you open a new account with them, so keep an eye out for promotional offers.)

Then, set up an automatic transfer from your checking account into savings—as much as you think you can safely spare without bouncing rent checks or risking overdraft fees. Moving $100 a week will net you $5,200 by year's end, but any amount—even just $10 a week—is better than nothing and can help you build momentum toward your goal.

If you get paid via direct deposit at work, you can also ask your payroll department to split your paycheck between the two accounts, so that 90 percent goes into checking, for example, and 10 percent is dumped directly into your down payment fund.

Automating is an incredibly effective saving technique, because you're less likely to spend (or miss) money you don't see. If a portion of

your paycheck never makes it into your checking account, it's just not there to spend, quietly forcing you to be more careful with your money.

SET ASIDE ALL "BONUS" MONEY

Starting right now, decide that any "found" money or other cash windfall will go straight into your down payment fund. This includes holiday and birthday gifts—even that twenty bucks from your aunt—plus any work bonuses or tax refunds.

This takes some real discipline, as most of us would rather splurge on a celebratory night out or vacation after coming into unexpected cash (if it's not already earmarked for last month's rent or an overdue credit card bill). But the average tax refund was $2,535 in 2019, and that could go a long way fast toward bolstering your down payment fund.

PAY DOWN HIGH-INTEREST DEBT

That said, if you're carrying a high credit card balance—and paying $100 a month or more in interest on it—that could be a good target for your tax refund.

Paying down credit card debt can make you better qualified for a mortgage since it will boost your credit score and improve your debt-to-income ratio—two important considerations among lenders. It will also reduce the amount you're paying in exorbitant interest charges each month, money that could be going to your down payment fund instead.

However, in the short term, this does mean diverting potential savings away from your down payment fund. Aggressively paying

off credit card debt is a longer-term strategy, but a powerful one. Once you get the balance to zero, don't take your foot off the gas: Take whatever money you were paying toward your credit card each month and start putting that amount into your down payment fund. When you finally go from, say, *paying* $400 a month (much of that money going toward double-digit interest rates) to *saving* $400 a month, it's an incredible turnaround—like intercepting a pass in the end zone and running it back for a touchdown.

CUT YOUR MONTHLY EXPENSES AND SAVE THE DIFFERENCE

Serious savers know that cutting costs is where you can make the most progress the fastest. Look at your monthly bills and consider what services you could live without for a while. These cuts don't have to be permanent; just go without until you save enough for a down payment—though you might discover that you can get by just fine without them.

Start with discretionary services, such as your cable TV or streaming subscriptions. If you're still paying full freight for cable in this day and age, look at cord-cutting options that free you from cable services. Better yet, if you live near a major city, buy a digital antenna to receive live local broadcasts. You may be surprised by how much great content is available for free, and in high definition, over the airwaves. If you've already cut cable, take an inventory of the streaming services you subscribe to. Do you need all of them? Drop the ones you don't use much.

Look at other monthly expenses, big and small: Can you cancel or pause your gym membership for a few months and work out at home or outside? Are you subscribed to magazines you never find time to read? Definitely hit pause on any monthly goodie-box subscriptions while you're trying to amass a down payment.

Set a Streaming Rotation

One popular, simple money-saving strategy is to binge-watch content from one streaming service for a couple of months, and then cancel and move on to another service, instead of paying for all of them all the time.

Next, see if you can save money on essential expenses. Are you not driving as much now, because you've been working from home? Call your car insurance company and ask for a discount. (Or, if it's been a while, shop around for a new insurer.) Have you checked your cell phone plan lately? Your carrier may have new, cheaper options available, or you could investigate a lower-cost provider.

Then comes the important part: *Don't let these savings evaporate.* Increase your automatic savings transfer by whatever amount of money you're able to trim from your ongoing expenses. Your checking account won't know the difference.

Practice Money Mindfulness

Not all spending is so regimented, of course. So make a critical, Marie Kondo–inspired review of your bank and credit card statements from the last few months. Look for charges that, in retrospect, didn't really bring you joy.

Did you ever read those books you bought, or are they still sitting on the shelf? Sure, it was on sale, but did you really need that new

sweater? Do you even remember what you bought for $23.79 at that highway rest stop? Look for patterns of thoughtless spending, and vow to be more mindful with your money.

COOK AT HOME

Yes, after more than a year spent in varying degrees of coronavirus lockdown, we're all a little tired of eating at home. But if you started cooking for yourself more often during the pandemic, keep up the habit. If you're the type who ordinarily goes out to dinner often, even cutting back on just one night out a week can add up quickly.

If you really want to turbocharge your food savings, combine home cooking with more careful grocery-shopping habits. Plan out your meals for the week, and shop for just those ingredients (with a list) to avoid impulse purchases. Subbing in a meal like beans and rice for a meat-based dinner once in a while can be a healthy way to save money too. And buy generic or store-brand items as a default. This may only save you 25 to 50 cents at a time, but when you multiply that by twenty or more items a week, fifty-two weeks a year, it adds up to $250 to $500 in savings from a single, simple—almost effortless—change.

SELL SOME STUFF

If you're successful in buying a home, you're going to be moving before long. Why not get a jump on decluttering and start cleaning out closets and selling some things?

If you have a lot of random, low-value items—kids' clothes, toys, books, DVDs, video games, knickknacks—then holding a yard sale is

probably your best bet. For higher-value items, such as collectibles, designer clothes, and toys that hold their resale value well (such as LEGOs), it's often worth selling them individually online. You can list items on general resale sites, such as *eBay* or *Facebook Marketplace*, or on niche sites, such as *Poshmark* or *thredUP* for clothes.

PICK UP A SIDE HUSTLE

However you feel about the tech-and-capitalism cocktail that is the modern gig economy, there's no denying that it's given us a way to make some quick side cash. Even if you just pick up four to six hours a week—a Saturday afternoon, or a couple of weeknights after work—you can earn an extra $50 to $100 a week and have the funds deposited directly into your down payment account.

If you've got a reliable car and can pass a background check, you can shop for and deliver groceries through Shipt, Instacart, or Postmates; pick up take-out through DoorDash; or shuttle passengers around as an Uber or Lyft driver. You can pick up babysitting gigs through Sittercity or Care.com, walk dogs through Wag! or Rover, or perform odd jobs on TaskRabbit or Fiverr.

There are plenty of other options too; see which services are most popular in your area and offer the best mix of pay potential and schedule flexibility. Just be aware of two hidden costs: You'll be using more gas and putting more wear and tear on your vehicle if you drive, and you'll owe some income tax on your earnings later (which isn't withheld automatically, since you'll be paid as an independent contractor).

OTHER DOWN PAYMENT SOURCES

How to Tap Retirement Accounts and Handle Cash Gifts

While getting into a good savings routine will serve you well in life—for long after you buy your first home—there are some faster ways to come up with big chunks of down payment money, if they're available to you.

TAP YOUR RETIREMENT SAVINGS

Most financial planners advise against this strategy, because so many Americans are woefully underprepared for retirement. However, you may be able to pull money out of a workplace or Individual Retirement Account (IRA) and use it toward your down payment without paying the harsh 10 percent penalty that the Internal Revenue Service typically charges for early withdrawals taken before age fifty-nine and a half.

The most flexible account for this purpose is the Roth IRA, which allows you to withdraw contributions—that is, the money you've deposited into the account over the years—at any time, for any purpose, without a penalty. If you've had a Roth IRA for more than five years, you can also pull out an additional $10,000 in earnings (i.e., investment gains) to be used toward a first-time home purchase.

With a traditional IRA, you can similarly withdraw up to $10,000 to put toward your first home (including renovations), without paying the 10 percent penalty. However, you will have to pay ordinary income taxes on the withdrawal when you file your taxes the

following year—just as if you got a $10,000 bonus at work (except in this case, it's your future self awarding you the cash).

Unfortunately, common workplace retirement accounts, such as 401(k)s and 403(b)s, offer no such exemption. You can take money out of these accounts in the event of a "financial hardship," but you'll pay both income taxes *and* a 10 percent early withdrawal penalty, which makes it a pretty terrible deal.

However, there is a workaround: If you have an old 401(k) from a previous job, you can roll that over into an IRA. This doesn't cost anything, but it generally takes a phone call and a few weeks' time. Once the account has been converted to a traditional IRA, you could take advantage of the early-withdrawal exemption for buying your first home.

Lastly, you can actually loan yourself money from your 401(k), up to half the account's value or $50,000, whichever is less. You won't have to pay taxes or a penalty on this money, but you will have to pay back the loan, plus interest. The good news is, that interest is going toward your own retirement. The bad news is, this new debt obligation may work against you when it comes time to qualify for a mortgage: Borrowing $10,000 at a 6 percent interest rate, for example, will saddle you with a monthly payment of $193 for the next five years, adding to your debt-to-income ratio. So make sure it doesn't tip the scales on your debt burden, and that you can easily afford the repayment schedule.

Rules and limits for 401(k) loans can vary by employer, but generally, you'll have five years to pay yourself back, with interest, unless you leave the company—in which case, you may need to pay off the remaining balance immediately or face an early withdrawal penalty.

Lending Yourself a Down Payment

Since you're borrowing from your (future) self, the worst that can happen if you fail to pay back a 401(k) loan is that the loan turns into a regular early withdrawal: You'll pay the 10 percent early withdrawal penalty plus ordinary income taxes and miss out on investment growth in your retirement account, but the default won't impact your credit report.

GIFTS FROM FAMILY MEMBERS

You'll want to be tactful and respectful about it, of course, but you can also ask family members for some financial help. If your parents or grandparents own their home, they've likely experienced a surge in their home equity over the past few years—so they may be able and willing to chip in toward your home buying dream.

You need to be careful with big cash gifts, however. If $10,000 suddenly materializes in your bank account two weeks before you apply for a mortgage, your lender will want to know where it came from. This generally applies to any large, irregular deposit to your account within sixty days of your mortgage application.

Ideally, it's good to get this type of financial assistance squared away months before you need it. Otherwise, in addition to their generous financial support, your family member will need to provide a signed letter for the mortgage lender stating that the money is, in fact, a gift, with no expectation of repayment or ownership stake in the home. (That's not to say you can't repay your relative later on if you'd like. But the lender wants to make sure you're not beholden to another creditor, even a familial one—the bank wants to be your top financial priority.)

The letter should include:

- Your family member's name, contact information, and relationship to you
- The dollar amount and date of the transfer
- The address of the property being purchased
- A statement, signed by both of you, that no repayment or ownership stake is expected

Since it's a gift, you won't have to pay taxes on the money (though you may feel obligated to be extra nice next Thanksgiving). Your relative, meanwhile, only needs to report a gift in excess of $15,000, the current gift tax exclusion as of 2021. (Even then, they should only owe tax on the amount above $15,000—but check with an accountant or tax professional, of course.)

LOW- OR NO-DOWN-PAYMENT MORTGAGES AND DOWN PAYMENT ASSISTANCE

Maybe You Don't Need to Save That Much After All?

For a lot of people with good credit and a stable job, saving a full down payment is the only thing standing in the way of homeownership. Policymakers recognize that reality, so there are many federal and state-sponsored mortgages that require little or even no down payment on a primary residence. Most are for first-time buyers only—but not all of them. Some state and local programs, meanwhile, offer down payment grants or interest-free loans to first-time buyers.

LOW-DOWN-PAYMENT MORTGAGES

Low- or moderate-income buyers can access a number of different first-time home buyer loans at the federal and state level, with varying eligibility requirements and limits. In general, these low- or no-down-payment mortgages can't exceed the conforming loan limit, which in 2021 ranges from $548,250 up to $822,375 in high-cost areas. Most have other restrictions, too, such as income limits, and require borrowers to complete a home buying education course. Here's a look at some of the most common options.

- **VA loans:** Active-duty military, veterans, and surviving spouses can finance a home purchase with as little as $0 down payment

through the Department of Veterans Affairs, and you don't even have to be a first-time home buyer. Since VA loans are directly backed by the federal government, borrowers without great credit may also qualify. You won't have to pay private mortgage insurance with a VA loan, but they do require a one-time, upfront fee (which can typically be financed into the loan).

- **USDA loans:** Buyers in rural areas can also secure a $0 down payment mortgage backed by the government, courtesy of the US Department of Agriculture. USDA-guaranteed loans are available to low- and moderate-income buyers alike, provided they're purchasing a primary residence in an eligible community (some of which are only twenty miles outside of a big city); you can check USDA.gov to find out whether a town or specific address qualifies. Like VA loans, there's no private mortgage insurance required, but USDA loans do have an upfront one-time fee and a smaller annual fee paid monthly.
- **Fannie Mae and Freddie Mac:** These two quasi-governmental agencies own most of the residential mortgages in America, and they set the standards used by lenders all over the country. Both agencies now allow home loans with as little as 3 percent down. Fannie Mae's HomeReady Mortgage and Freddie Mac's Home Possible loan are both available to low-income buyers—including repeat buyers—with credit scores as low as 620, provided borrowers meet debt, income, and other requirements. Both agencies also offer a standard loan with a 3 percent down payment requirement to first-time buyers at any income level. You can apply for these mortgage products at virtually any lender.
- **FHA loans:** The Federal Housing Administration (FHA) offers a variety of government-backed mortgages, including loans for first-time buyers, fixer-uppers, and new construction. First-time

buyers can qualify for a home loan with a 3.5 percent down payment and a credit score as low as 580, though the FHA has lower lending limits in some areas. Low-down-payment FHA borrowers must also pay mortgage insurance for the life of the loan, and FHA loans require a separate property inspection.
- **State housing finance agencies:** Every state has its own nonprofit Housing Finance Agency (HFA), dedicated to meeting the affordable housing needs of its low- and moderate-income residents. These agencies generally offer first-time home buyer loans with affordable fixed rates, low-down-payment options, consumer education, and even, in some cases, down payment assistance, which we'll explain next.

Financing a Fixer-Upper with a Rehab Loan

With just a 3.5 percent down payment, qualified buyers can use an FHA 203(k) loan, often called a rehab or renovation loan, to finance the purchase of a fixer-upper and roll the costs of any needed renovations or repairs into the mortgage. These loans can't be used for "luxury" improvements, such as adding a swimming pool. But they can be used to fund basic cosmetic updates, essential repairs, energy-efficiency improvements, and upgrades to home systems like the plumbing or wiring. Buyers with better credit or higher income levels, meanwhile, can look into conventional rehab loans offered by Fannie Mae and Freddie Mac.

DOWN PAYMENT ASSISTANCE

Many cities, towns, counties, and states offer some form of down payment assistance to local first-time buyers who meet certain income restrictions and other criteria.

Often this assistance is in the form of a grant—a.k.a. free money—or a zero-interest loan, repaid only when you refinance or sell the home later. Other times the loan is forgivable, meaning that, as long as you use the property as your primary residence for a certain length of time, such as five or ten years, you won't have to pay back the debt.

There are almost always some strings attached—you generally must live in the home for a certain number of years, for example—but some programs are quite generous. MassHousing, the state housing finance agency in Massachusetts, now offers up to $15,000 in down payment assistance to first-time buyers, and up to $25,000 for buyers in certain cities. The city of Boston, meanwhile, offers its own down payment assistance program, a zero-interest loan of up to $30,000. And some of the new first-time buyer programs in Illinois offer up to $6,000 in down payment assistance (forgiven after five years), or up to $40,000 in student loan relief with a $5,000 loan toward a down payment.

Down payment assistance programs are generally only available to low- and middle-income buyers who haven't owned a home in the past three years and will use the property as their primary residence. Often you must kick in a minimum of $1,000 toward your down payment as well. But such programs exist in virtually every state and in hundreds of communities, so see what's available where you live.

Chapter 3

Readying Your Finances

It's never too early to start looking at homes for sale; every open house or online tour will help you sharpen your house-hunting senses. You'll start to understand what floor plans, features, and neighborhoods you like, which ones you don't, and what price trends are in your target area.

However, until you've actually taken a deep, honest look at your financial situation, any house hunting at this point is purely theoretical—like window shopping.

In this chapter, you'll see the numbers necessary to turn your daydreams into reality. You'll discover the key financial figures you need to understand, the benchmarks you'll need to meet to qualify for a home loan, and how to shore up your finances if you're not quite mortgage-ready.